

Message Text

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PAGE 01 GENEVA 01509 01 OF 02 011554Z
ACTION STR-07

INFO OCT-01 NEA-10 IO-13 ISO-00 AGRE-00 CEA-01 CIAE-00
COME-00 DODE-00 EB-08 FRB-03 H-01 INR-07 INT-05
L-03 LAB-04 NSAE-00 NSC-05 PA-01 CTME-00 AID-05
SS-15 ITC-01 TRSE-00 USIA-06 PRS-01 SP-02 SOE-02
OMB-01 DOE-11 STRE-00 /113 W
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R 011512Z FEB 78
FM USMISSION GENEVA
TO SECSTATE WASHDC 5382
INFO AMEMBASSY ISLAMABAD

LIMITED OFFICIAL USE SECTION 01 OF 02 GENEVA 01509

PASS STR ELECTRONICALLY FOR STEWART

E.O. 11652: N/A
TAGS: ETRD, GATT, PK
SUBJECT: GATT BALANCE OF PAYMENTS COMMITTEE - PAKISTAN

REF: STATE 14665

1. SUMMARY: GATT BOP COMMITTEE RECOGNIZED THAT PAKISTAN'S NEED FOR BOP TRADE RESTRICTIONS REMAINED, AND EXPRESSED HOPE PAKISTAN WOULD UNDERTAKE FUNDAMENTAL MEASURES TO RESTORE EXTERNAL AND INTERNAL STABILITY SO AS TO PERMIT FURTHER LIBERALIZATION OF TRADE. COMMITTEE ALSO ACKNOWLEDGED, FOR FIRST TIME, THAT EXTERNAL FACTORS SUCH AS TRADE RESTRAINTS IN TRADITIONAL MARKETS ON CERTAIN PAKISTANI EXPORT GOODS AFFECTED PAKISTAN EXPORT EARNINGS. END SUMMARY.

2. GATT BOP COMMITTEE MET JANUARY 19 AND 31 TO CONSULT WITH PAKISTAN ON THE TRADE RESTRAINTS THAT PAKISTAN MAINTAINS TO PROTECT ITS BALANCE OF PAYMENTS. PAKISTAN DEL
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PAGE 02 GENEVA 01509 01 OF 02 011554Z

(HAMID) STRESSED THAT BOP POSITION HAD DETERIORATED DUE TO GROWING DEFICIT ON TRADE BALANCE (FROM A DEFICIT OF \$474 MILLION IN 1973/74 TO \$1,447 MILLION IN 1976/77). TRADE DEFICIT LAST YEAR WAS LARGER THAN TOTAL EXPORT RECEIPTS, AND NO IMPROVEMENT COULD BE EXPECTED IN THE NEAR FUTURE. HAMID POINTED TO STAGNATION IN TRADITIONAL EXPORT MARKETS DUE TO INTERNATIONAL RECESSION AND TO TRADE RES-

TRAINTS MAINTAINED BY DEVELOPED COUNTRIES AGAINST PAKISTAN COTTON EXPORTS (WHICH ACCOUNT FOR APPROXIMATELY 1/3 OF PAKISTAN EXPORT EARNINGS). HE ALSO DREW ATTENTION TO THE MAGNITUDE OF PAKISTAN'S EXTERNAL DEBT.

3. STATEMENT BY IMF REPRESENTATIVE (NOWZAD) RECOGNIZED CURRENT DIFFICULT BOP SITUATION AND POINTED OUT CONTRADICTIONS IN PAKISTAN ECONOMIC POLICIES. NOWZAD SAID THAT, DESPITE SLOW RATE OF REAL GROWTH (2 PERCENT) AND GROWING DEBT BURDEN, PAKISTAN AUTHORITIES HAVE MAINTAINED GROWTH EFFORT WITH RESULTANT GROWTH IN BUDGETARY DEFICITS. HE NOTED RELATIVELY GOOD PERFORMANCE ON PRICES (10 PERCENT INCREASE LAST YEAR) DESPITE HIGH RATES OF MONETARY EXPANSION. ON PROJECTIONS, IMF DOES NOT EXPECT PAKISTAN'S NET EXTERNAL POSITION TO IMPROVE DURING CURRENT FISCAL YEAR AS INCREASES ON EXPORT SIDE (IMPROVED COTTON EXPORTS) WILL BE OFFSET BY INCREASED DEFICIT ON INVISIBLES ACCOUNT. DEFICIT REQUIRING OFFICIAL FINANCING (\$360 MILLION) IS FORECAST TO REMAIN NEAR LAST YEAR'S LEVEL, MOST OF WHICH WILL BE FINANCED BY MEDIUM-TERM BORROWING. DEBT SERVICE PAYMENTS ARE EXPECTED TO INCREASE TO U.S. \$464 MILLION AND YIELD A DEBT SERVICE RATIO OF 18.5 PERCENT. THE FUND STATEMENT RECOGNIZES THAT THERE HAS BEEN AN EASING OF IMPORT RESTRAINTS AND WELCOMES THE INTENT OF THE PAKISTAN AUTHORITIES TO PURSUE A FURTHER SIMPLIFICATION OF THE IMPORT SYSTEM.

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PAGE 03 GENEVA 01509 01 OF 02 011554Z

4. COMMITTEE MEMBERS POSED QUESTIONS INTER ALIA ON PROJECTIONS FOR MONETARY GROWTH, INFLATION, EXCHANGE RATE POLICY, AND PAKISTANI IMPORT REGIME. ON INFLATION, PAK DEL SAID PAKISTAN WILL TRY TO KEEP RATE AT PRESENT LEVEL, OR LOWER, WHILE IMF DEL SAID IT WAS DIFFICULT TO PREDICT RATE OVER NEAR FUTURE. ON EXCHANGE RATE, PAKISTAN REP REPLIED THAT DECLINE IN VALUE OF DOLLAR HAD NO APPRECIABLE EFFECTS AND NOTED THAT FLEXIBLE RATES HAD NOT HELPED DEVELOPED COUNTRIES SOLVE THEIR TRADE DEFICITS. IMF DEL SAID THAT PAKISTAN TRADE PATTERN LED ONE TO POSTULATE THAT DECLINE OF DOLLAR (SINCE RUPEE TIED TO DOLLAR) WOULD HAVE FAVORABLE EFFECTS ON PAKISTAN TRADE BALANCE.

5. ON 10 AND 20 PERCENT SURCHARGES, PAKISTAN DEL CONFIRMED THAT THESE NO LONGER EXISTED AS THE HIGHER RATES HAD BEEN INCORPORATED IN A NEW TARIFF SCHEDULE WHICH WAS BEING RENEGOTIATED UNDER GATT WAIVER.

6. HAMID CLAIMED THAT MARGIN REQUIREMENTS WERE NOT A PRIOR DEPOSIT SYSTEM IN THE SENSE THAT THEY WERE MEANT

TO RESTRICT IMPORTS BUT WERE PART OF A BROAD POLICY TO
LIMIT CREDIT EXPANSION.

7. ON QUESTION OF GATT LEGALITY OF 2 PERCENT LICENSE FEE,
HAMID ARGUED THAT FEE WAS MEANT TO FINANCE THE ADMINISTRA-
TION OF IMPORT CONTROLS AND SHOULD BE SEEN IN CONTEXT OF
NEED TO MAXIMIZE DOMESTIC RESOURCES.

8. SEVERAL MEMBERS OF COMMITTEE NOTED IMF STATEMENT THAT
PAKISTANI AUTHORITIES WERE COMPILING LIST OF IMPORT ITEMS
CURRENTLY BANNED IMPLICITLY AND ASKED THAT PAKISTAN SUBMIT
THE LIST TO THE GATT. HAMID SAID HE HAD NO KNOWLEDGE OF
SUCH A LIST.

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PAGE 01 GENEVA 01509 02 OF 02 021540Z
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LIMITED OFFICIAL USE SECTION 2 OF 2 GENEVA 1509

8. SEVERAL MEMBERS OF COMMITTEE NOTED IMF STATEMENT THAT
PAKISTANI AUTHORITIES WERE COMPILING LIST OF IMPORT ITEMS
CURRENTLY BANNED IMPLICITLY AND ASKED THAT PAKISTAN SUBMIT
THE LIST TO THE GATT. HAMID SAID HE HAD NO KNOWLEDGE OF
SUCH A LIST.

9. IN LONG DEBATE OVER COMMITTEE CONCLUSIONS, PAKISTAN,
SUPPORTED BY INDIA AND BRAZIL, ARGUED THAT CONCLUSIONS
CONTAIN A RECOMMENDATION THAT DEVELOPED COUNTRIES MAIN-
TAINING IMPORT RESTRAINTS AGAINST PAKISTANI GOODS UNDER-
TAKE TO LIBERALIZE THEM. EC SAW THIS AS ATTACK ON
MULTIFIBER AGREEMENT, AND AUSTRALIA AND NORDICS COULD NOT
ACCEPT WORD RECOMMENDATION. COMMITTEE FINALLY ACCEPTED
COMPROMISE LANGUAGE RECOGNIZING THAT RESTRAINTS IN TRADI-

TIONAL MARKETS AGAINST SOME PAKISTANI GOODS AFFECTED
PAKISTANI EXPORT EARNINGS AND THAT LIBERALIZATION OF
THESE RESTRAINTS WOULD INCREASE PAKISTANI EXPORT
EARNINGS THEREBY FACILITATING PAKISTAN'S EFFORTS TO
LIBERALIZE TRADE. CONCLUSIONS ALSO EXPRESSED HOPE THAT
ADOPTION OF THE FUNDAMENTAL EXTERNAL AND DOMESTIC MEASURES
REFERRED TO BY THE IMF WOULD ENABLE PAKISTAN TO REDUCE ITS
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PAGE 02 GENEVA 01509 02 OF 02 021540Z

RELIANCE ON TRADE RESTRICTIONS.

10. COMMITTEE REPORT WILL BE POUCHED ISLAMABAD.

11. COMMENT: THIS IS FIRST TIME THAT BOP COMMITTEE HAS
TAKEN INTO ACCOUNT EXTERNAL FACTORS I.E., RESTRAINTS
IN EXPORT MARKETS AFFECTING A CONSULTING COUNTRIES BOP
'SITUATION. PAKISTAN DEL TOLD US PRIVATELY THAT HE WAS
QUITE PLEASED WITH CONSULTATIONS, THAT THEYHAD BEEN
MORE USEFUL THAN HE HAD AT FIRST BELIEVED, AND THAT THIS
MEETING SHOWED THERE WAS SOMETHING FOR DEVELOPING
COUNTRIES IN THE BOP CONSULTATIONS. SORENSON

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